Facts for Consumers

Investments

Franchise and Business Opportunities

Federal Trade Commission | Toll-free 1-877-FTC-HELP
www.ftc.gov | For the Consumer
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Want to be your own boss? A franchise or business opportunity may sound appealing, especially if you have limited resources or business experience. However, you could lose a significant amount of money if you don't investigate a business carefully before you buy. The Federal Trade Commission's Franchise and Business Opportunity Rule requires franchise and business opportunity sellers to give you specific information to help you make an informed decision.

Use the FTC Rule

A franchise or business opportunity seller must give you a detailed disclosure document at least 10 business days before you pay any money or legally commit yourself to a purchase. You can use these disclosures to compare a particular business with others you may be considering or simply for information. The disclosure document includes:

- names, addresses and telephone numbers of at least 10 previous purchasers who live closest to you;
- a fully audited financial statement of the seller;
- background and experience of the business' key executives;
- cost of starting and maintaining the business; and
- the responsibilities you and the seller will have to each other once you've invested in the opportunity.

If the seller doesn't give you a disclosure document, ask why. Verify the explanation with an attorney, a business advisor or the FTC by calling its toll-free helpline at 1-877-FTC-HELP (382-4357). Even if the business is not legally required to provide a disclosure document, you still may want one for your own information.

Get All the Facts

Before you buy a business:

- Study the disclosure document and proposed contract carefully.
- Interview current owners *in person*. (They should be listed in the disclosure document.) Visiting them in person may help you identify any that are "shills"—people paid to give favorable reports. Don't rely on a list of references selected by the company because it may contain shills. Ask owners and operators how the information in the disclosure document matches their experiences with the company.
- Investigate claims about your potential earnings. Some companies may claim that you'll earn a certain income or that existing franchisees or business opportunity purchasers earn a certain amount. Companies making earnings representations must provide you with the written basis for their claims. Be suspicious of any company that does not show you in writing how it computed its earnings claims.

- Sellers also must tell you in writing the number and percentage of owners who have done as well as they claim you will. Keep in mind that broad sales claims about successful areas of business—“Be a part of our $4 billion industry,” for example—may have no bearing on your likelihood of success. Also, recognize that once you buy the business, you may be competing with franchise owners or independent business people with more experience than you.
- Shop around. Compare franchises with other business opportunities. Some companies may offer benefits not available from the first company you considered. The Franchise Opportunities Handbook, published annually by the U.S. Department of Commerce, describes more than 1,400 companies that offer franchises. Contact those that interest you. Request their disclosure documents and compare their offerings.
- Listen carefully to the sales presentation. Some sales tactics should signal caution. For example, if you are pressured to sign immediately “because prices will go up tomorrow,” or “another buyer wants this deal,” slow down. A seller with a good offer doesn’t use high-pressure tactics. Under the FTC rule, the seller must wait at least 10 business days after giving you the required documents before accepting your money or signature on an agreement. Be wary if

the salesperson makes the job sound too easy. The thought of “easy money” may be appealing, but success generally requires hard work.

- Get the seller’s promises in writing. Any oral promises you get from a salesperson should be written into the contract you sign. If the salesperson says one thing but the contract says nothing about it or says something different, it’s the contract that counts. If a seller balks at putting oral promises in writing, be alert to potential problems and consider doing business with another firm.
- Consider getting professional advice. Ask a lawyer, accountant or business advisor to read the disclosure document and proposed contract. The money and time you spend on professional assistance, and research—such as phone calls to current owners—could save you from a bad investment decision.

Where To Complain

You can file a complaint with the FTC by contacting the Consumer Response Center by phone, toll-free at 1-877-FTC-HELP (382-4357); TDD: 202-326-2502; by mail at Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580; or online at **www.ftc.gov**, using the complaint form. Although the Commission cannot resolve individual problems for consumers,

it can act against a company if it sees a pattern of possible law violations.

For More Information

The FTC publishes free brochures on many consumer issues. For a complete list of publications, visit the FTC online at **www.ftc.gov**—click on Consumer Protection. Or, write for *Best Sellers* to Consumer Response Center, Federal Trade Commission, 600 Pennsylvania Avenue, NW, Washington, DC 20580; or call toll-free 1-877-FTC-HELP (382-4357); TDD: 202-326-2502.